

INFORMED BUDGETEER: Reconciliation Conference

SUBCONFERENCE UPDATES

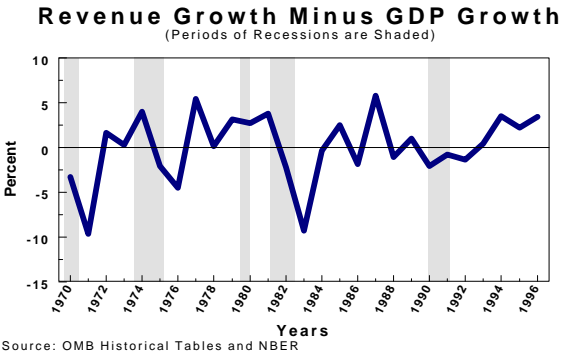
- As of this date, 9 of 13 spending reconciliations subconferences have completed their legislative drafting to form the Balanced Budget Act of 1997.
- **FOOD STAMPS:** The Agriculture Committees in accordance with the Bipartisan Budget Agreement provides a 15% hardship exemption from a work requirement for able-bodied 18-50 year olds with no dependents. The subconference also provides \$920 million to create additional work slots for those affected by the work requirement.
- In addition, the subconference retained two Senate provisions: 1) a requirement that states establish a system verifying that prisoners do not receive food stamps, and 2) an authorization of up to \$600,000 in annual grants for nutrition education.
- **HOUSING:** The Banking Committee Conferees agreed to the House-passed version of the bill, producing \$1.6 billion in savings, consistent with the BBA.
- The subconference version assumes continuation of current law policy to reduce the amount of forbearance extended by the Federal Housing Administration. Restrictions on the amount of automatic cost increases provided to Section 8 owners was also assumed.
- Additionally, the provision in the Senate-passed bill to mark Section 8 contracts to market, which yielded \$0.4 billion in additional savings, was dropped by the conferees.
- **SPECTRUM:** The House & Senate Commerce subconference on spectrum has agreed to a package of auctions that would generate just over \$21 billion of receipts over the next five years.
- The subconferees agreed to extend and broaden the FCC authority to auction spectrum and specifically direct the reallocation of 120 megahertz for auction.
- The subconference, consistent with the House and Senate-passed bills, dropped the spectrum fee and vanity phone number auction proposals that were assumed in the BBA.
- Finally, the subconferees, in a significant departure from the BBA, declined to set a date certain (2007) for television broadcasters to return one of the two channels they have been loaned to facilitate the development of and transition to digital television. Instead, the subconferees have developed a three-tiered test the FCC will have to use before it can require broadcasters to return one of the channels. The test will indefinitely delay the return of taxpayers' spectrum and the development digital television equipment as well as new, alternative applications for the spectrum, and will reduce receipts to the federal treasury.
- **STUDENT LOANS:** The House Education and Senate Labor Committees agreement would provide for student loan savings of \$1.8 billion over the next five years.
- The subconference fully implements the Agreement by recalling \$1 billion in excess guaranty agency excess reserves; eliminating the direct loan subsidy for loan origination; eliminating the mandatory vocational education appropriation known as Smith Hughes; and achieves the remaining savings from reducing the direct loan administrative cost spending account.
- The subconference report adheres to the intent of the Agreement which stated that "proposed savings in student loan programs would not increase costs, reduce benefits, or limit access to loans for students and their families." Additionally, the subconference report implements the specific policies assumed in the Agreement to "achieve an equitable balance in savings between the direct student loan program and the guaranteed student loan program."
- These provisions cost roughly \$300 million in 2002 and \$1.5 billion over five years according to preliminary CBO estimates.
- **VETERANS:** The Veterans Committees completed its subconference work meeting both the letter and spirit of the budget agreement. The reported provisions would save \$2.7 billion over five years.
- The agreement includes extending all expiring OBRA sunset dates (income verification, pension limitations for veterans in Medicaid paid nursing, prescription drug co-pays and housing fees for non-veterans;) and extending the COLA round down.
- The subconference, according to the budget agreement, allows VA to retain the receipts into the Medical Care Cost Recovery (MCCR). As a transition to the new system, if receipts do not meet projections in 1998, there will be an automatic appropriation of funds to cover the shortfall.
- **CIVIL SERVICE:** The Senate Governmental Affairs Committee and the House Government Reform and Oversight Committee agreed to save \$4.95 billion over five years through civil service reform, \$28 million more than the budget resolution required.
- The conferees chose to increase agency contributions to the Civil Service Retirement System (CSRS) by 1.5 percent a year through 2002, saving \$2.933 billion. Employees in the CSRS and the Federal Employees Retirement System are also required to temporarily contribute more to their retirement accounts, starting with a 0.25 percent increase in 1999 and reaching a 0.5 percent increase in 2001 and 2002, saving \$1.829 billion over five years.
- Finally, conferees agreed to reform the government contribution to the Federal Employee Health Benefits plan, saving \$28 million over five years, and to repeal the transitional appropriation to the Postal Service, saving \$165 million over five years.
- **ASSET SALES:** The Senate Governmental Affairs Committee and the House Transportation and Infrastructure Committee also reached agreement on their subconference. Both chambers had previously decided to sell Governor's Island and the air rights above Union Station, earning \$540 million in 2002. The subconference agreed to give the city and the state of New York the "right of first offer," rather than the "right of first refusal." This stronger language will make it harder to delay the sale of Governor's Island.
- **ENERGY:** The Energy Committees completed an agreement which provides for the lease of excess Strategic Petroleum Reserve capacity, subject to certain conditions. The agreement provides for the use of funds collected through the leasing to be used for the purchase of oil beginning in fiscal year 2008, in conformance with the BBA.
- The subconference also includes the sale of 3.2 million pounds of natural and low-enriched uranium for the period fiscal year 1999 through 2002. The conferees expect that these uranium sales will not be introduced into the spot market or sold in a manner that will have a significant adverse impact on domestic uranium producers.
- Finally, the subconference agreement dropped the extension of authority for collection of annual fees by the Nuclear Regulatory Commission (NRC) fees for the period of 1999-2002.
- **USER FEES:** The House Transportation and the Senate Commerce subconference completed it's work on extending the vessel-tonnage fees. The extension raises \$49 million each year beginning in 1999, for a four-year total of \$196 million.

FACTORS BEHIND THE FALLING DEFICIT

- The falling budget deficit has prompted some to assert that 1) we no longer need the Bipartisan Budget Agreement and 2) that the economy is solely responsible for the deficit decline. The *Bulletin* takes exception with both claims. Informed Budgeteers should also be skeptical, here’s why:

The Need for the BBA :

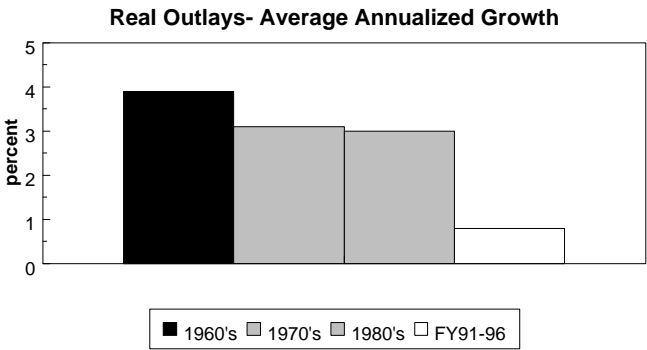
- Some argue that the budget outlook would be more favorable if the BBA were not enacted, since the BBA assumes a rise in the FY98 deficit. However, this is due to a rise in CBO’s baseline deficits and is not due to policy changes. The BBA’s projected annual deficits are either essentially equal to or are lower than the current services baseline deficits for each year of the budget window. Furthermore, the BBA ensures that the budget remains in balance from 2002-2007.
- While some may argue that the current services baseline is too pessimistic in light of recent strong revenue growth, this is not necessarily the case in the long-run. One large factor behind the deficit’s recent fall stems from the fact that revenue growth has outstripped GDP growth by over 2 percent for the last 4 years. This is not sustainable since on average, revenue growth equals GDP growth. Otherwise, taxes would take an increasing share of output.
- Should the economy slow from its recent strong growth pace, revenue growth could lag GDP growth, putting upward pressure on the deficit estimates. Such a slowdown becomes more of a risk in light of today’s tight labor markets and nascent signs of capacity strain. The volatility in the gap between revenue growth and GDP growth through different phases of the economic cycle can be seen in the following chart.



- We need the BBA’s structural reforms, because we are trying to achieve lasting budget balance, not just a one year victory through rosy economics. The BBA trims entitlements (including interest) by nearly \$600 billion from 1997-2007. These are imperative first steps if we want to solidify the long-run fiscal outlook as the babyboomers age.

Congress’ Role in the Deficit Decline :

- While some have attributed the deficit’s decline just to the economy, Congressional action has also played a key role. Real outlay growth has been curtailed since FY1991, when discretionary spending caps and pay-go provisions were implemented in OBRA-90 and then extended in OBRA-93.
- In contrast to the 3.4 percent average annualized growth seen from 1960-1990, real outlays have grown only 0.8 percent a year from FY1991-96. This is even more notable when one realizes that this time period included a recession.



SOURCE: OMB's Historical Tables

- Had real outlays continued to grow at their pre-FY1991 pace, FY1996's deficit would have been \$258 billion larger -- ie, instead of a FY1996 deficit of \$107 billion, we would have had a monstrous \$365 billion deficit, larger than any recorded in US history.
- The beauty of the spending caps and pay-go provisions is that they limit Congress’ natural tendency to spend money. The BBA will extend these budget enforcement mechanisms until 2002, further enhancing the chances for sustainable budget balance.
- The *Bulletin* concludes that 1) the BBA is needed to ensure sustainable budget balance and guard against only a temporary balancing of the budget and 2) Congressional spending restraint stemming from OBRA-90 has been a key factor behind the deficit’s decline.

SENATE APPROPRIATIONS SCHEDULE

FY 1998 APPROPRIATIONS BILLS			
	Subcmte	Full Markup	Senate Floor
Ag, H.R. 2160/S. 1033	7/15	7/17 ^R	
Commerce, Justice, State	7/11 ^A	7/17 ^R	
Defense, S.1005	7/8 ^A	7/10 ^R	7/15 ^P
District of Columbia			
Energy & Water, S.1004	7/8 ^A	7/10 ^R	7/16 ^P
Foreign Operations, S.955	6/18 ^T	6/24 ^R	7/17 ^P
Interior, H.R. 2107	7/18	7/22	
Labor, HHS, Education	7/22	7/24	
Legislative, S.1019	---	7/15 ^R	7/16 ^P
Military Con, H.R. 2016		7/17 ^R	
Transportation, H.R. 2169	7/15	7/22	
Treasury/Postal, S.1023	7/11 ^A	7/16 ^R	7/21
Va/Hud, H.R.2158/S.1034	7/15	7/17 ^R	7/21

^AConference; ^TTentative; ^RReported; ^PPassed

CALENDAR

July 30: Spending Reconciliation Conference Report debated on Senate Floor.

July 31: Revenue Reconciliation Conference Report debated on Senate Floor.

August 1-September 2: Congress adjourned for August recess.